

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY  
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT  
POLICY

Voluntary - Public

**Date:** 10/14/2009

**GAIN Report Number:** CH9085

## China - Peoples Republic of

**Post:** Beijing

### **Annual**

#### **Report Categories:**

Canned Deciduous Fruit

#### **Approved By:**

William Westman

#### **Prepared By:**

Joshua Emmanuel Lagos, Freddie Xu, and Wu Bugang

#### **Report Highlights:**

For MY 2009, canned peach and pear production are forecast at 335,000 and 76,500 MT, down 10 percent and 7 percent from the previous year due to large carry over stocks and weak global demand. Domestic consumption of canned yellow peaches is expected to grow, while other canned fruit are forecast to remain stable. Overall, exports of canned peaches are to remain steady, while imports are unchanged.

## **Executive Summary:**

For market year (MY) 2009, canned peach and pear production are forecast at 335,000 and 76,500 metric tons (MT), down 10 percent and 7 percent from the previous year due to large carry over stocks and weak global demand. During MY 2008, because of the global economic recession, 40,000 MT of canned peaches were left unsold.

Canned yellow peaches are a traditional snack food, and are considered the most popular canned fruit in China. According to industry sources, the consumption of canned yellow peaches is increasing at around 20 percent per year. Because of this demand, major canneries plan to shift their focus from the international to the domestic market. Chinese consumers generally purchase very little other domestic canned fruit, such as pears and white peaches.

Overall, due to the effects of the global recession, total Chinese canned peach exports are forecast to remain steady year on year, which is unlike activity in prior years, where the product experienced 30-40 percent export growth. MY 2009 canned yellow peach exports are forecast to increase slightly as Chinese peaches are generally very price competitive for specific markets. However, white peach exports are projected to drop, as Japan (the largest importer) is to purchase less on expected slower economic recovery. For MY 2009, China's canned pear exports are forecast to drop by 10 percent to 55,000 MT due to weak global demand, especially from Thailand, Russia, and Eastern European countries. China's imports of canned yellow peaches are expected to remain steady from last year.

## **Production:**

For MY 2009, canned peach and pear production are forecast at 335,000 and 76,500 MT, down 10 percent and 7 percent from the previous year on large carry over stocks and weak global demand. Processors have not been actively buying yellow peaches because 40,000 MT of canned peaches were left unsold from last year, causing an excess in exportable supply. This has also negatively affected prices; for example, in Shandong province (one of the largest peach producing provinces) prices are down 30 percent from the previous year, or approximately \$0.15 per kg (1.00 RMB).

Fresh yellow peach production continues to grow as new plantings begin to bear fruit; however, peach acreage may fall in the near future given the decline in producer prices. Some processors intend to grow organic peaches, but it is quite difficult to find suitable land. Conversely, fresh pear production is steady based on continued stable domestic and international demand.

During MY 2008, production costs for canning industry fell slightly. Tin plate prices dropped by 5 percent from a year ago and fuel prices also went down significantly. Additionally, agricultural inputs costs for fertilizers and pesticides fell by 5-10 percent from last year's peak levels. These findings are not inconsistent with China's Consumer Price Index (CPI), which illustrates for 2009 (January to September) an average -0.8 percent decline in comparison with a 7.0 percent rise in 2008. Labor costs, however, have increased to USD \$11.70 per day in Shandong. Nevertheless, overall costs have decreased, and Chinese canneries are expected to lower their export prices by 5-10 percent for MY 2009. The average export prices for canned peaches in MY 2008 were quoted at \$1,020, up 13 percent from MY 2007.

Canneries are expected to purchase more mechanized equipment as a result of rising labor costs. Currently, Chinese canning operations are primarily labor-intensive. However, the rising cost of labor and occasional labor shortages in coastal provinces like Shandong and Zhejiang (where most fruit canneries are located) have forced the canning industry to expedite the level of mechanization. It is expected that the process will take 5-6 years.

## **Consumption:**

Canned yellow peaches are a traditional snack food, and are considered the most popular canned fruit in China, especially in the north and northeast. Chinese consumers prefer big peach halves that have a harder texture and a deep yellow color. Currently, only one local variety, Ba Fan, can meet these requirements. Imported varieties from the United States, South Africa, and Greece have these features, but are not price competitive with the local product.

According to industry sources, the consumption of canned yellow peaches is increasing at around 20 percent per year. Because of this demand, major canneries plan to shift their focus from the international to the domestic market. For instance, a leading canning operation in Shandong, which currently exports around 90 percent of its products, plans to increase its domestic sales by 30 percent. While Chinese consumers purchase more than 50 percent of all domestically

produced canned yellow peaches, almost all imported canned yellow peaches are bought by bakeries and expatriates. Most Chinese consumers are price-sensitive, but in-store promotions can dramatically boost sales.

Chinese consumers generally purchase very little other canned fruits, including canned pears and canned white peaches. Unlike canned yellow peaches, other canned fruits are not a traditional part of the Chinese diet, as many prefer eating these fruits fresh. Only one-fourth of domestically produced canned fruit (other than yellow peaches) are consumed in China, and this demand is expected to remain stable in the short term. Industry associations have been educating the Chinese public on the health benefits of canned fruit as an alternative to fresh fruit, but consumer perception is unlikely to change overnight.

## Trade:

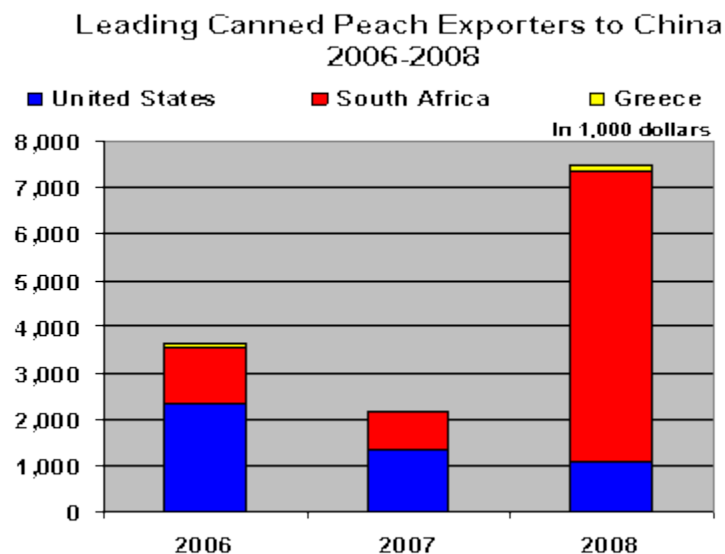
### *Export*

Overall, due to the effects of the global recession, total Chinese canned peach exports are forecast to remain steady year on year, which is unlike activity in prior years where the product experienced 30-40 percent export growth. MY 2009 canned yellow peach exports to Europe and the United States are forecast to increase slightly as Chinese peaches are generally very price competitive for lower end markets, where large peach halves are not a requirement. These sales comprise approximately 75-80% of Chinese total canned peach exports. However, white peach exports are forecast to drop, because Japan (the largest importer) is expected to purchase less as a result of slower economic recovery.

For MY 2009, China's canned pear exports are forecast to drop by 10 percent to 55,000 MT due to weak demand from the world market, especially from Thailand, Russia, and Eastern European countries. Import demand from the United States and Western European countries is expected to remain flat. Traders have noted that the quality of some Chinese canned pears is quite low, which may further impact China's canned pear exports.

### *Import*

China's imports of canned yellow peaches are expected to remain steady from last year. For MY 2009, they are forecast at 5,300 MT, sourced primarily from South Africa.



## Policy:

Large canneries, sometimes referred to as “leading agro-businesses” or “Dragon-head enterprises,” have easy access to loans from state-owned banks and receive preferential legal treatment from local government authorities on issues such as land use and tax privileges. In reality, most private processing plants are small and receive scant financial support from the government. On June 1, 2009, the central government increased the tax rebate for exported canned peaches and pears from 13 to 15 percent; however, many processors indicated that the impact of the adjustment would be quite limited as it is not enough to make the product more price competitive.

## Marketing:

*Packaging* - Packaging plays a very important role as Chinese consumers like to inspect the fruit before making purchasing decisions. Because of Chinese consumer preferences, most local canneries use glass jars so that consumers can see the contents. Other packaging innovations include soft cans (jars made of transparent plastic) or the addition of pull tops to tin cans. Hypermarkets and other retail chains generally showcase glass jars and soft cans. The food service sector (e.g. restaurants) primarily uses conventional cans. Most imported products do not address the nuances of the hypermarkets or the food service sector, as many are packaged in conventional cans. For consumer oriented sales, a suggestion would be to sell the product in a more transparent container.

Comparison of Different Packages			
	Cans	Glass Jars	Soft Cans
Easy for transportation	Yes	No	yes
Easy for consumers' inspection	No	Yes	yes
Easy to carry	Yes	No	yes
Easy to open	No	Yes	yes
Compatible with different packing sizes	Yes	Yes	no (suitable for snack-size)

*Pricing* – In supermarkets and hyper-markets, competing domestic canned fruit brands are similarly priced; while imported canned fruit are approximately 50%-400% higher than their domestic counterparts. The food service sector generally buys imported products because of relatively higher quality, which has caused some domestic canneries to produce more inexpensive higher quality canned fruit. At present, the supply of domestically produced higher quality canned fruits cannot meet industry demand.

*Promotion* – Local manufacturers have limited budget resources dedicated to educating consumers or conducting public marketing campaigns. The industry's marketing efforts focus primarily on northeast China, which already is a high consumer of canned fruits. Billboards, bus advertisements, and free tastings are common promotional tools. In terms of retailing, promoted products generally sell about 50 percent more than those that are not.

*Distribution* – For domestically produced products, broadening the consumer base has become more prevalent, particularly in the untapped food service sector. For example, some leading canneries are already segmenting into new niche markets such as VIP clubs and karaoke bars (people sing in a private room that is catered with fruits and drinks).

Imported canned peaches, pears, and apricots are primarily bought by the Chinese baking industry because of their superior taste and uniform shape and texture. Premium bakery shops garnish cakes and other items with canned sliced fruit as it makes the dessert appear fresh, which is important since many Chinese consumers are health-conscious. Bakeries will use domestically produced canned fruit to reduce production costs if the buyer does not care about fruit appearance.

*Opportunities and challenges* - Other canned fruit (besides yellow peaches) are generally not purchased due to a lack of consumer education. As previously mentioned, Chinese consumers have certain biases against canned fruits, and it is imperative that industry continues to lead education programs on the safety of canned foods and why it is a healthy alternative to fresh fruits.

Brand counterfeiting has become more prevalent. For example, a South African brand (for canned yellow peaches) was counterfeited and caused sales disruptions, as the forged product was of lower quality. Counterfeiting has not yet occurred in the retail sector. Before entering the Chinese market, it is recommended that industry take the necessary steps to protect their intellectual property rights.

## Production, Supply and Demand Data Statistics :

### Canned Peaches

Peaches, Canned China	2007		2008		2009		
	2007/08		2008/09		2009/2010		
	Market Year Begin: Jun 2007		Market Year Begin: Jun 2008		Market Year Begin: Jun 2009		
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Data	USDA Official Data	Jan	
							Data
Deliv. To Processors	403,500		558,750	558,750			502,500
Beginning Stocks	0	0	0	0			40,000
Production	301,500		372,500	372,500			335,000
Imports	4,672		7,500	5,511			5,300
Total Supply	306,172	0	380,000	378,011			380,300
Exports	149,196		180,000	147,799			150,000
Domestic Consumption	156,976		200,000	190,212			228,000
Ending Stocks	0		0	40,000			2,300
Total Distribution	306,172	0	380,000	378,011			380,300

# Canned Pears

Pears, Canned China	2007		2008		2009		
	2007/08		2008/09		2009/2010		
	Market Year Begin: Jun 2007		Market Year Begin: Jun 2008		Market Year Begin: Jun 2009		
	USDA Official Data	NEW Post Data	USDA Official Data	NEW Post Data	USDA Official Data		Jan
							Data
Deliv. To Processors	127,200		144,000	144,000			122,400
Beginning Stocks	0	0	0	0			0
Production	79,500		90,000	82,000			76,500
Imports	18		10	15			20
Total Supply	79,518	0	90,010	82,015			76,520
Exports	61,282		71,000	61,027			55,000
Domestic Consumption	18,236		19,010	20,988			21,520
Ending Stocks	0		0	0			0
Total Distribution	79,518	0	90,010	82,015			76,520